MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019 / 2020

BFN3104- CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

14 October 2019
(2.30pm-4.30pm)
(2 hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **4** pages with **5** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Question 1 (20 marks)

Shareholders' value and profit maximization are important to shareholders.

a. What is shareholders' value? (2 marks)

b. Explain **three** (3) problems associated to profit maximization. (6 marks)

c. Discuss the profiles of corporate life cycle and their financial strategies. (12 marks)

Question 2 (20 marks)

Adya Group (a matured company) is considering investment in property development projects named Musang King (MK), Kucing Tidur (KT) and Durian Kampung (DK). The information on projected cash flow available to you are as follows:-

Project MK: Year 0:-RM200mil Year1:RM140mil Year 2: RM140mil

Project KT: Year 0:-RM400mil Year1:RM260mil Year 2: RM260mil

Project DK: Year 0:-RM200mil Year1:RM150mil Year 2: RM120mil

Discount rate: 12% per year

a. What are relevant financial strategies to finance the above projects? (6 marks)

b. Compute Net Present Value (NPV) for each projects. (9 marks)

c. If the projects are mutually exclusive, which project is acceptable? (2 marks)

d. If Adya Group only has RM620mil budget, which projects suit the company's objective? (3 marks)

Question 3 (20 marks)

a. What is financial risk management? (2 marks)

b. How do airlines companies manage their financial risks? (4 marks)

c. You have been assigned to analyse a project with the following expected cash flows:

Time (t)	**0**	**1**	**2**	**3**	**4**	**5**	**6**
Cash flow (RM million)	−110	40	30	50	40	30	20
Abandonment (RM million)	n.a.	40	40	50	20	10	n.a.

If the cost of capital for this project is 8 percent, what is the net present value? Should the project be undertaken? (7 marks)

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d. You are evaluating a proposed expansion project and you determine that the Discounted Cash Flow (DCF-NPV) is –RM70 million. However, by investing today, you might have a future growth option to expand further but it would cost you an additional RM80 million (in today's Ringgit) to have this option. If this future opportunity occurs, you estimate the present value of this option will be RM430 million. However, there is only a 30 percent chance of this occurring.

Calculate the financial viability of this project. Advice your Managing Director. (7 marks)

Question 4 (20 marks)

a. Explain **three** (3) post-defense takeover (M&A) strategies. (6 marks)

b. Explain **two** (2) methods of commonly used to determine the value of the target firm. (4 marks)

c. Geely Bhd has shown interest to acquire Proton Bhd. The acquisition will cost Geely Berhad RM200 million. Geely to sell Proton Berhad at the end of 5 years. The projected incremental after-tax cash flow stream that Geely Berhad expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM40 million, RM40 million, RM60million, RM50 million, and RM40 million. In addition, the projected after-tax proceeds from selling Proton Bhd at the end of 5 years amount to RM255 million.

i. Calculate the NPV of the acquisition, assuming a 12 percent cost of capital. (4 marks)

ii. Should Geely proceed with the acquisition? (2 marks)

d. An acquisition target currently has 15 million shares outstanding. They are trading at RM21. This gives the target a current market value of RM370 million. What is the premium paid if the target is acquired at RM30 per share? (4 marks)

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Question 5 (20 marks)

a. Explain **three** (3) signs of financial distress (6 marks)

b. Discuss whether liquidation are likely be more common for public utility, airline and railroad? (6 marks)

c. If the firm chooses to reorganize, the following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow in RM million	30	40	50	60	70

The appropriate discount rate is 8 percent. The liquidation value of the firm is RM200 million.

i. What is the reorganization value? (6 marks)

ii. Should the firm file for reorganization or liquidation? (2 marks)

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